

Guaranteed Housing Loan Program

Of The

RURAL DEVELOPMENT

UNITED STATES DEPARTMENT OF AGRICULTURE



FOR USE IN FLORIDA & VIRGIN ISLANDS

Revised July 7, 2006
Previous revision was May 1, 2006



Your USDA lending partner



SIGNIFICANT CHANGES SINCE REVISION OF May 1, 2006

- Revised the Uniform Origination Package Checklist
 - Updated information on Form 1980-21 (form was revised 06/06)
 - Removed obsolete Form AD-1048, “Certification Regarding Debarment”
- Removed Form 1980-21. The updated form is available on various web sites cited in this handbook or from any Rural Development office.
- Removed obsolete Form AD-1048, “Certification Regarding Debarment”
- Removed Forms 1980-86 (Reservation). The form is still required.
- Removed Form 1980-21 (application). The form is still required.
- Removed Step 1 from the Processing Guide. Removed the mandatory homeownership education.
- Revised section on repayment income to allow training in lieu of job tenure.
- Removed requirement that manufactured home dealers must also hold residential contractors license.
- Removed checklist for lender approval. Checklist can be obtained from the local Rural Development office.
- Clarified pool waivers to state that the value of the pool will be subtracted from the property appraisal in determining the maximum loan amount.
- Revised index

DISCLAIMER:

This handbook is a brief overview provided to give ample information in most cases. However, it does not provide the detailed information that may be required for some situations. Readers who need more detail should research the following:

- Administrative Notices (ANs) on various underwriting topics such as alien eligibility, credit, alternative documents, etc. are posted on several web sites including www.rurdev.usda.gov/regs [click on Administrative Notices and scan the list for all of those containing a (1980-D)], our FL/VI site www.rurdev.usda.gov/fl/quarrhs.htm (click on “loan origination page” under Lender Links), and the Allregs website <http://www.allregs.com/>
- Rural Development Instruction 1980-D, published in 1995, found at the above web sites. The Instruction is useful for finding definitions, details on what incomes count (or not) and adjustments to income.
- Florida Administrative Notices (ANs) are posted along with the national Administrative Notices at www.rurdev.usda.gov/fl/quarrhs.htm Click on “loan origination page” and then click on the “Regulations” link.
- This handbook information takes precedence over conflicting information in the Instruction 1980-D and reflects and/or interprets information in recently issued national Administrative Notices.
- Numerous other edits.

Using/Printing the Forms

- The forms in this guide are fillable.
- You should control the proper printing sequence using the standard print functions. The forms are stacked back-to-back in this guide so that Agency personnel can easily print the entire guide.
- Form RD 1980-86, “Request For Reservation of Funds” is a one page fillable form.
- Individual forms are available on the FL/VI web site:
www.rurdev.usda.gov/fl/quarrhs.htm

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The Agency's Commitment conditions list the items required in the post closing package.

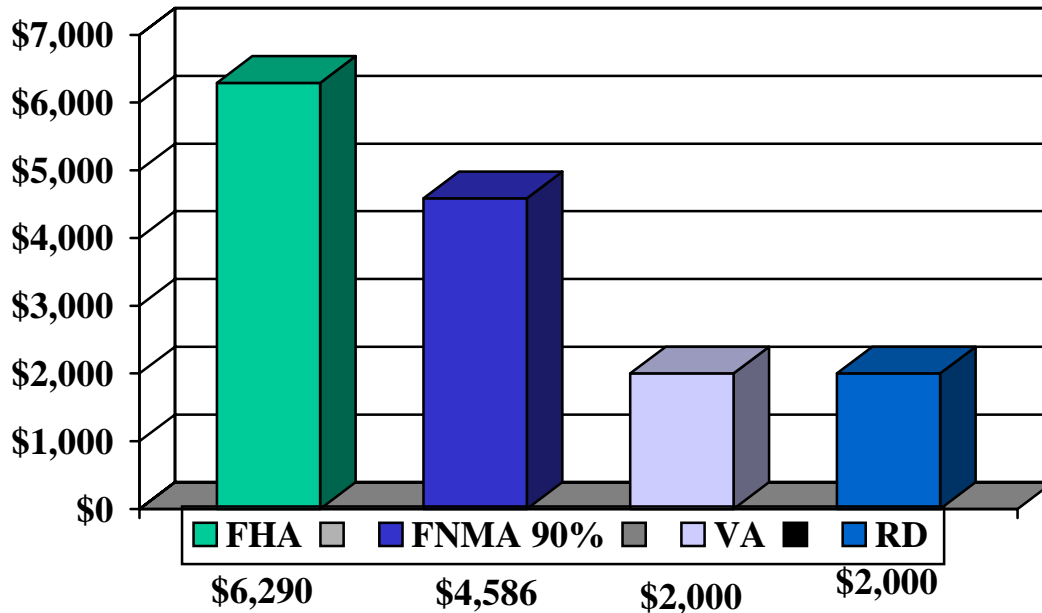
Advantages:

- Loan up to 102% of appraised value.
- Loan is NOT limited to lower of contract or value. Difference of contract and value can be used to finance closing costs. The guarantee fee can be added to the appraised value.
- No limit on CLTV when soft second financing such as SHIPP or HOME is used for closing costs.
- No MI.
- No reserves required.
- No max loan amount.
- Applicant can retain liquid assets of up to 20% of purchase price and still obtain 102% financing.
- No cash contribution required from borrower in most cases.
- Education/training can replace job tenure. Assist professionals beginning their career.
- Unrestricted gifts, not necessary to document source.
- Non-traditional credit may substitute for lack of traditional credit history.
- No credit explanations when credit score is 660 or above.
- No minimum credit score.
- Ratios are 29/41. However, liberal ratio waivers possible with documented compensating factors.
- Conventional loan packaging. Only 2 extra forms.
- Lender earnings not restricted. Total costs, not including the one-time guarantee fee, must be similar to other low down payment products (conventional, FHA, VA).
- Competitive rates (set by underwriting lenders). 30-year fixed rate loan.
- Lenders, not Rural Development, underwrite the loan.
- Loan processing is not delayed. One day or same day turn-around by Rural Development.
- Local friendly Agency staff available to answer questions and assist with seminars and training. See www.rurdev.usda.gov/fl for a directory of FL/VI offices.

FLORIDA RURAL DEVELOPMENT

QUICK REFERENCE GUIDE FOR MORTGAGE FINANCING IN RURAL AREAS				
	RURAL DEVELOPMENT	FHA	VA	FANNIE MAE 100
FRONT RATIO	29%	29%	NA	28%
BACK RATIO	41%	41%/43% energy eff.	41%	36%
MAX. LTV	102%*	97.75% > \$50,000 98.75% < \$50,000	100%	97%
MAX LOAN	limited only by repayment ability	\$121,296.00 UNLESS HIGH COST AREA*	\$184,000.00 (higher with d.p.)	\$252,700.00 ONE UNIT
LOAN TERMS	30	15-30	15-30	15-30
INTEREST RATE	MARKET-FIXED	MARKET-FIXED OR VARIABLE	MARKET-FIXED	MARKET-FIXED
MTG INSURANCE	NONE	Varies by LTV and term	NONE	25% coverage
FUNDING FEE	2% OF LOAN .5% for refinance		2%, 1st USE	
RESERVE	NONE	NONE	Residual income, based on # persons	2 MONTH PITI
SOURCE OF DOWN PAYMENT	N/A	NO RESTRICTIONS	N/A	Applicants must pay CC & Esc.
SOURCE OF CLOSING COSTS	NO LIMITATION	SELLER LIMITED TO PAYING 6% OF BUYER COST	NO LIMITATION	Borrower (no gifts)
PREMIUM PRICING	Yes	Yes	Yes	Yes
<p>RURAL DEVELOPMENT HAS HOUSEHOLD INCOME LIMITATIONS BASED ON FAMILY SIZE. CERTAIN DEDUCTIONS FROM HOUSEHOLD INCOME MAY BE TAKEN TO HELP LOWER THE INCOME INTO THE ELIGIBLE LIMIT. SEE RD FOR FURTHER INFORMATION ON LIMITS AND ADJUSTMENTS TO HOUSEHOLD INCOME.</p> <p>*LTV can exceed 100% by the actual amount of guarantee fee financed.</p> <p>SEE THE FLORIDA RD HOME PAGE FOR FURTHER INFORMATION: http://www.rurdev.usda.gov/fl/guarrhs.htm </p>				

This chart demonstrates the savings in loan costs when you close a RD guaranteed residential loan.



10 Year Cost To Insure \$100,000 Loan

Chart information courtesy of Chase Manhattan Mortgage Corporation

On a \$100,000.00 loan, the borrower saves \$4,290.00 in the first 10 years by opting for the RD loan rather than the FHA loan. Remember, it is difficult to drop MI insurance. Plus, the MI premium has to be calculated into the ratios. This is NOT an issue with the RD loan since MI is not required.

ANY LENDER MAY PARTICIPATE

- Any lender licensed in Florida may originate the loans. Loan packages must be submitted by the Agency approved underwriting lender. See the lender approval checklist on page 25 (and on our Web site).

A RURAL LENDING PROGRAM

- Broward, Monroe and Pinellas Counties are not eligible.
- If the property is in one of the following counties, you can check an address or see a map at: <http://eligibility.sc.egov.usda.gov/> The site will give a "yes" or "no" upon entering an address. Alachua; Bay; Brevard; Charlotte; Clay; Dade; Duval; Escambia; Hillsborough; Indian River; Lee; Leon; Manatee; Marion; Orange; Palm Beach; Pasco; Polk; Santa Rosa; Sarasota, St. Johns; St. Lucie; Seminole; and Volusia.
- Usually communities over 10,000 populations are not eligible. Many of the areas close to metropolitan cities remain eligible because the Agency uses the year 2000 census information.

INCOME LIMITS

Project the cumulative gross income of all adults in the household.
THE GROSS INCOME LIMITS CAN BE MUCH HIGHER THAN THE ADJUSTED INCOME LIMITS SHOWN IN THIS TABLE

If the projected dependable income exceeds the limits, certain adjustments can be made, such as childcare expenses for children age 12 or younger and paid to someone outside the family. You also can deduct one \$480 annual deduction for anyone under 18 who is not one of the applicants. Other deductions may be applicable such as the deduction for an elderly household and full time student over age 18.

Example: Clay County 4-person family (2 adults, 2 children) has a gross income of \$80,310. Child care for the two children age 12 or less is \$10,000 annually. Is the threshold income at or below the limit? **YES**.
 \$80,310 less \$10,000 child care less \$480 for each child = \$69,350.

<u>Counties</u>	<u>1- person</u>	<u>2- person</u>	<u>3- person</u>	<u>4- person</u>	<u>5- person</u>	<u>6- person</u>	<u>7- person</u>	<u>8- person</u>
All Florida & Virgin Island Counties EXCEPT those listed below.	48,000	54,850	61,700	68,550	74,050	79,000	85,000	90,500
<u>Clay, Duval, Nassau, St. Johns</u>	48,550	55,500	62,400	69,350	74,900	80,450	86,000	91,550
<u>Collier</u>	56,200	64,250	72,250	80,300	86,700	93,150	99,950	106,000
<u>Palm Beach</u>	51,850	59,250	66,650	74,050	79,950	85,900	91,800	97,750
<u>Broward, Pinellas, Monroe are NOT eligible</u>								

See our easy to use calculator at:

<http://eligibility.sc.egov.usda.gov/eligibility> Click on "Single Family Housing" under "Income Eligibility" to access the income calculator. Try some sample cases with gross income above the limits and play with the variables to see their dramatic effect on the adjusted household income. The calculator shows the other possible adjustments.

The 'eligibility' web site also contains an income chart showing the "adjusted" income limits for all counties. Just click on the state in the list on the site. If a county is not listed, it is in a MSA and you will have to go to the MSA link. Ignore the "low" income limit unless you want to finance discount points into the loan.

Common Error: Assuming that the above adjusted income limits are the gross income limits.

DOCUMENTATION OF TOTAL HOUSEHOLD INCOME

- Income of all adults residing in the household must be verified. A calculation of total household income should be included in the loan package. You can print out the system generated calculation that was discussed above.
- Acceptable alternative documentation for non-self-employed applicants:
 - Paycheck stubs or payroll earnings statements covering the most recent 30-day period, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant's current employment.
OR
 - Form RD 1910-5, "Request for Verification of Employment" (or the equivalent HUD/FHA/VA or Fannie Mae form), and the most recent paycheck stub.
OR
 - Electronic verification or other computer-generated documents accessed and printed from an Intranet or Internet, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant's current employment.
 - Alternative documentation is not appropriate for self-employment, disability, child support income, etc. See the FL/VI web site for the national directive on this subject.
 - Attach portions of any divorce decree pertaining to property settlements, child support, and alimony in your Rural Development loan package.

REPAYMENT INCOME

- May be based on verified projected income.
- Job tenure may be waived for recent graduates.
- Non-taxable income may be grossed up 20%.
- No co-signors living outside the household permitted.

MARKETING

Market to the higher end of the income range for larger loans and easier qualification. The gross household income can be much higher than the Agency adjusted income limits. See the previous explanation above the income chart. Potentially a family could have a gross income above \$100,000, depending on the amount of child care costs and number of dependents.

LENDER FEES

- Not limited except total fees should not exceed those charged for similar conventional products or FHA and VA. Do not count the Rural Development guarantee fee in the comparison. It may always be tacked on above the appraised value.

LOAN PURPOSES

- Purchase existing* residential properties.
 - *over 12 months old.
- Newly build homes (less than 12 months since the CO was issued).
- Take out/end loan and proposed construction-permanent.
- Including: modular housing; manufactured (only new units, see the section titled "Manufactured Housing"); townhouses; and condominiums. Townhouses and condominiums must be "property eligible" for Fannie Mae, Freddie Mac, FHA, or VA. The homeowners must control the HOA.
- Property repairs/improvements. Repairs must be completed before the final guarantee is issued.
- All typical buyers closing costs, including the one time RD guarantee fee, can be included.
- Discount points but the applicant must be low income only - see RD income chart at Web sites shown under "INCOME LIMITS."
- Refinancing RD guaranteed or RD direct loans.

NOTE: The loan is not limited to lesser of contract or appraisal. Loan costs and repairs can be wrapped into the loan. The loan can exceed the appraised value by the amount of the Rural Development one-time guarantee fee.

REFINANCING

Limited to refinancing loans presently guaranteed by Rural Development or loans made directly the Agency (Section 502 Direct loans) or debts on a property that will be the security for a loan for new construction.

- Rural Development direct loans may have subsidy recapture due. The recapture can be deferred (RD maintains a lien) or it can be included in the payoff. A 25% reduction of the recapture amount is offered for payoff rather than deferral.
- Term must be 30 years.
- Fixed interest rate at or below the current rate.
- A .5% guarantee fee applies. NOTE: This is different than the fee required on purchase loans (2.0%).
- Income limits and ratios are the same as for an initial loan.
- No insulation certification; No flood certification; No property inspection.
- CANNOT refinance debts other than the existing RD guaranteed loan or a RD "direct" loan.
- Can add or delete borrowers.
- Must be owner occupied.
- Maximum loan cannot exceed the balance of the loan being refinanced, plus the guarantee fee financed, and reasonable and customary closing costs, including funds necessary to establish the new escrow for taxes and insurance.
- An appraisal is not required when refinancing only the unpaid principal on a guaranteed loan. However, an appraisal is always required when refinancing a direct loan or when interest, closing costs, or the guarantee fee is included in the loan.

- No cash back (except the nominal amount paid up front for the credit check and appraisal). The applicants may receive any escrow refund from the old loan.
- It is permissible for the property to be in an ineligible (non-rural) area because of area delineation changes by Rural Development.

MINIMUM LOAN AMOUNT

- None, check with investor.

MAXIMUM LOAN AMOUNT

- Up to the appraised amount PLUS the Agency's one-time guaranteed fee and the customer's repayment ability
 - Note: The loan is NOT limited to the lesser of cost or value.
- See 'Refinance' section for limit when refinancing Rural Development loans.
- No limit on CLTV: The total debt can exceed the value if a loan for closing costs or down payment is made by a state or local agency and secured by a 'soft second' lien to permit assistance such as SHIPP or HOME. Mortgage Credit Certificates (MCCs) are allowed. Grants by the state or local agencies for closing costs or down payment are acceptable. Check with your secondary marketing department for any restrictions they may impose in regard to the second liens. County SHIPP coordinators are found at:
<http://www.hud.gov/local/fl/homeownership/programs/countylist04.cfm>

TERM

- 30-year amortization, fixed rate, no exceptions. For construction-permanent loans, the term begins with the date of the loan modification to the permanent terms.

INTEREST RATE

- Rate sheet provided by investors. Limited to the Fannie Mae 90-day yield (actual-actual) for 30 year conventional fixed rate loans [plus .6% (60 basis points)] or the lender's posted VA rate with no discount, whichever is higher. Rate may float until locked. This is a maximum rate, not a minimum.

GUARANTEE FEE

- Purchase loans. Fee is 2.0 percent (.02) of the final loan amount. The fee may be included in the loan.
 - To calculate the final loan amount to include the total fee: divide the proposed loan before the fee by .98
 - Example: \$160,000.00 loan without the fee.
 $160,000 / .98 = \$163,265.30$ final loan amount. The fee is 2.0% of the new final loan amount or \$3,265.30.
- Refinance (see "REFINANCING", page 9): Fee is .5 percent (.005) of the final loan amount. Divide by .995 to determine final loan amount if the fee is being financed.

ESCROW

- Mandatory.

• CREDIT CRITERIA

CAUTION: See "DOCUMENT PAYMENT SHOCK" as stricter underwriting may be necessary.

See Administrative Notices (AN) on credit and underwriting issues:
www.rurdev.usda.gov/fl/guarrrhs.htm

- When three scores are obtained, use the middle score. If there are only two scores, use the lower of the two.
- Customers with 660 or above may take advantage of the streamlined documentation. A lender shall not be required to document adverse credit history waivers under RD Instruction 1980-D, 1980.345(d) (e), except those involving a delinquent Federal debt or previous Agency loan.
- Credit scores between 659 and 620 call for a full assessment of the credit issues. This is still an acceptable range. Underwriters must document their waiver of derogatory items in their package submitted to RD. The 1008 is an appropriate place to document the waiver, but be specific. Those derogatory criteria are listed under "WAIVERS TO CREDIT REQUIREMENTS", below. The Rural Development does not have a special waiver form.
- Applicants with a credit score of 619 or less would statistically have a high likelihood of default on their loan. Layered risk associated with the application should be carefully analyzed. The file submitted to Rural Development must contain the underwriter's narrative justification including the compensating factors.
- The credit of the primary applicant will carry the most weight in the underwriter's decision. A high score by the co-borrower can be used as a compensating factor.
- Alternate credit documentation such as rent, utilities and local accounts is acceptable. A history of credit adequate for the underwriter to make a reasonable determination of credit worthiness must be available.

EXAMPLES OF RISK LAYERING

- Payment shock.
- Recent self-employment
- Ratio exceeding the normal maximums of 29/41.

CREDIT HISTORY VERIFICATION

- RMCRs, MMCRs and NTMCRs that meet the standards of Fannie Mae, Freddie Mac, Housing and Urban Development (HUD) and Veteran Affairs (VA) are acceptable for RD purposes. In the case of MMCRs, tri-merged reports are preferred.
- Alternative non-traditional credit history is acceptable as discussed in "Credit Criteria"

WAIVERS TO CREDIT REQUIREMENTS (when the FICO score is 659 or less)

NOTE: The specific credit waiver request must be documented in the submission file, copy retained in lender file. There is no specific form for the waiver.

- These items must be waived when the credit score is less than 660:
 - More than one 30 late pays in last 12 months.
 - Account converted to collection in past 12 months.
 - Judgments outstanding in past 12 months.
 - Outstanding collections, with no satisfactory arrangement for payments, no matter what their age, as long as they are currently delinquent and/or due and payable.
 - Any debt written off in the past 36 months.
 - Two or more late rent payments within past 24 months.
 - Bankruptcy discharged within 36 months.
 - Tax liens or delinquent government debts (including student loans).
- Underwriters may consider mitigating circumstances to establish the borrower's intent for good credit when:
 - The circumstances were of a temporary nature, were beyond the applicant's control, and have been removed.
 - The adverse action or delinquency was the result of a justifiable dispute because of defective goods or services.
- Compensating factors would be required for consideration of a waiver by the underwriter. See the "ratio" section for a comprehensive list of common compensating factors.

LENDER CHECK FOR OTHER FEDERAL DEBTS IS REQUIRED

Each borrower must be checked for other federal debts on the HUD CAIVRS system (Credit Alert Interactive Voice Response System).

Any lender can use the system. Call 301-344-4000 and follow the script for a Rural Development loan.

Your "credit access code" is your federal tax ID number.

Upon calling you (1) to enter the Line of Credit Access System, (2) enter "1", (3) enter your tax ID number followed by the "#" key (4) enter "5" and press "#".

Clearly document the borrower/co-borrower's CAIVRS confirmation number near the signature line of the borrower's loan application form or on the Form 1008.

OUTSTANDING COLLECTION ACCOUNTS (PAYMENT OF)

See the Administrative Notice (AN) on the FL/VI home page, www.rurdev.usda.gov/fl/guarrhs.htm

The lender's underwriter determines whether the collection must be paid or not. The underwriter should document that the circumstances causing the collection have been removed and were beyond the control of the applicant. Requiring the payoff of such collection(s) as a loan condition would only place additional financial stress on an applicant who likely has little or no cash reserve. Collections with a repayment agreement will be accounted for in the repayment ratios. Lenders must assure that leaving any unpaid collection balances will not affect their ability to obtain a first lien and allow marketable title.

RATIOS

- Ratios determined as reasonable by the underwriter. While the Rural Development calls for a 29% front, 41% back ratio, flexibility is allowed, read on.
- There is not a maximum amount the ratios may be exceeded. Depending on the strength of the compensating factors, front ratios in the mid to high 30s and back (total debt) ratios in the mid to high 40s are not uncommon.
- Non-taxable income may be grossed up 20%.
- Count all debts with more than 6-months remaining payments. Other debts should be counted if they are reoccurring or otherwise have an impact on repayment ability.
- Deferred student loan payments coming due within 6-months are counted. Those over 6-months are counted at the discretion of the underwriter, depending on the individual circumstance such as the amount and when they become due.
- Underwriter may request a waiver on Form 1008 or similar form. The Agency issuance of a Commitment for the loan will constitute approval of the waiver.
- Lenders may consider education or documented training in lieu of employment history in order to assist customers entering their profession.

- Common compensating factors include:
 - FICO score of 660 or higher. The 660 score may be used by itself or coupled with other common compensating factors, to justify the debt waiver.
 - When the credit score is 720 or higher, the other compensating factors still need to be listed on the ratio waiver request but do not need to be documented.
 - Borrower has demonstrated a conservative attitude toward the use of credit and ability to accumulate savings.
 - Credit history shows that the borrower has devoted a similar percentage of income to housing expense to that of the proposed loan, or accumulated savings which, when added to the applicant's housing expense, shows a capacity to make payments on the proposed loan).
 - The borrower received compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including food stamps and other similar public benefits.
 - There is only a minimal increase in the borrower's housing expense.
 - The borrower has substantial cash reserves after closing.
 - The borrower has substantial non-taxable income not previously accounted for in the ratio computations.
 - The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.
- The home is being purchased as the result of relocation of the primary wage-earner and the secondary wage-earner has an established history of employment, is expected to return to work, and there are reasonable prospects for securing employment in a similar occupation in the new area. The underwriter must address the availability of such possible employment.
- A low back ratio. The low TD ratio, by itself, does not compensate for a high front ratio. However, when other strong compensating conditions are present, a low TD ratio should be viewed as a positive mitigating factor.
- Underwriters may request the waiver prior to submitting the full Rural Development package, instead of approving the loan subject to the Agency waiver approval.

DOCUMENT PAYMENT SHOCK

- Payment shock must be documented on the underwriter's analysis or 1008.
- Stricter underwriting standards apply in cases when the shock is 100% or more or there is no previous housing expense.
- No additional risk layering (i.e. adverse credit waivers, debt ratio waivers, or buy downs) should be allowed without documented compensating factors. Acceptable compensating factors include, but are not limited to, the following examples:
 - The borrower has an excellent credit history reflecting timely repayment of credit obligations;
 - The applicant has a Fair Issacs & Company (FICO) credit score of 660 or greater.
 - The applicant has demonstrated a conservative attitude toward the use of credit and an ability to accumulate savings;
 - The applicant has a stable employment history over the past two years, demonstrating a dependable income stream;
 - The applicant has demonstrated an ability to pay similar housing costs similar to the projected payment, taxes, insurance, and maintenance.
 - The applicant has potential for increased earnings, as indicated by job training or education in the applicant's profession.
- See the Administrative Notice(AN) list at:
http://www.rurdev.usda.gov/regs/an_list.html or
<http://www.rurdev.usda.gov/fl/guarrhs.htm>

SELLER ASSISTANCE

- No Rural Development limit. Reminder: closing costs can be wrapped into the loan when the contract price is less than the appraised amount.

2/1 BUYDOWN REQUESTS

- A 2/1 buy-down allows the interest rate reduction of 2% during the first year of the loan, 1% reduction during the second year, and goes to full note rate on the third year.
- Must be pre-approved by the local Rural Development office BEFORE processing the file.
- Lenders must show that the applicant's income will increase at the end of the first and second year to offset the increased payments, NOT including normal cost of living raises.
- Applicant must be in a position for increased income other than the annual cost of living raises.
- Projected reduced debt to offset increased rate is justified only if it can be documented that the debt will not occur again. An example of what will NOT work: car loan is being paid off.

CONSTRUCTION-PERMANENT LOANS

- The Rural Development can guarantee construction-permanent loans. The guarantee is not issued until the final inspection has been delivered with the closing package.
- Additional forms: Forms 400-1, "Equal Opportunity Agreement" and 400-6, "Compliance Statement". Download from: <http://www.rurdev.usda.gov/fl/quarrhs.htm> Also, an "Equal Opportunity Clause" (EOC) must be part of each contract or subcontract. These forms are not required with an end loan where funds are not advanced until the dwelling is completed.
- The longer the process, the more risk that the Rural Development may not be able to guarantee due to adverse changes in applicant circumstances.
 - Lenders can reduce their risk during construction by requiring higher underwriting standards such as lower ratios, higher credit score, and more time on the job.

HOME BUYER EDUCATION

- Not required, recommended only for first time homebuyers. A seminar type program is recommended, such as those provided by the SHIP program. Community Home Buyers Program is acceptable. Rural Development accepts any program conducted by the Lender that is approved by Fannie Mae, Freddie Mac, FHA, or VA.

A directory of county SHIP Coordinators can be found at:

<http://www.floridahousing.org/dpts/sfp.html>

A housing counselor's directory is available on the HUD Web site at:

<http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm>

OTHER ELIGIBILITY CRITERIA

See RD Instruction 1980-D, paragraph 1980.346 at:

<http://www.rurdev.usda.gov/regs>

- Does not own an adequate home. See "Retaining Another Home".
- Unable to easily qualify for a "20% down" conventional loan. Applicants should be allowed to retain sufficient cash on hand to cover out of pocket expenses associated with the purchase (such as moving expenses, utility deposits, window coverings, appliances, lawn maintenance equipment, etc.) and leave some reserve. A loan with MI coverage is not considered "conventional" by this paragraph. (Applicants do have a choice of Rural Development, FHA, or VA.)
- Be willing to personally occupy the dwelling.
- Be a U.S. citizen, a U.S. non-citizen national or a "qualified alien". A U.S. non-citizen national is a person born in American Samoa or Swains Island after the date the U.S. acquired the American Samoa or Swains Island. The Rural Development requirements are different than HUD in regard to non-permanent resident aliens.
 - See the Administrative Notice on this subject posted at www.rurdev.usda.gov/fl/quarrhs.htm or click on the link to Administrative Notices posted at www.rurdev.usda.gov/regs

THE RURAL DEVELOPMENT DOCUMENTATION MUST BE EXACTLY MATCHED WITH AGENCY REQUIREMENTS TO DETERMINE THE ELIGIBILITY OF A "QUALIFIED ALIEN"

- ✓ Lenders may use the INS automated system known as the Systematic Alien Verification For Entitlement (SAVE) to determine an alien's status. The SAVE system provides the following information: Alien Registration Number, Verification Number, First Name, Last Name, and Immigration Status messages. The print out from this search must be included in the loan package. Use of SAVE is not required (because a fee may be charged). Lenders wishing to enroll in SAVE should follow the directions in HUD Directive No. 7465.7G or go to <http://uscis.gov>

RETAINING THE OLD HOME AS RENTAL PROPERTY

- Generally borrowers must sell the old property, meaning at a minimum they have a sales contract with verified closing eminent.
- If it cannot be sold and it will be rented, a certified projected profit and loss statement must be obtained.
 - The projected net income must be counted in the total household income.
 - Calculate the net income in compliance with IRS and recognized accounting principals.
- Any present remaining mortgage payment must be counted in the ratios.
- New rental would generally not count for qualifying (repayment) income since there is no history to establish dependability.
- A new home cannot be constructed in close proximity to the old dwelling unless the old dwellings will be removed.

LIMITATIONS

- No co-signors permitted. Non-occupant co-borrowers are not permitted.
- First mortgage guaranteed loan amount cannot exceed the appraisal by more than the amount of guarantee fee financed.
- No existing manufactured homes. Existing modular homes are acceptable.
- No in-ground swimming pool unless the value is insignificant. Fax a memorandum waiver request to Rural Development early in the processing to avoid a processing delay. Include ample information to identify the loan and give the values with and without the pool. The value of the pool will be subtracted from the appraisal in determining the maximum loan amount (not including the fee). Pools included with in a townhouse/condo complex are acceptable.

REASONABLE COSTS AND FEES

- The Rural Development does not limit Lenders income from the loans except that they should be able to document that the total charges or fees do not exceed those charged by the lender for similar transactions such as FHA or VA. Other high loan-to-value home mortgage products can also be used for comparison. This documentation is not routinely requested as part of the loan application process. The Rural Development guarantee fee should not be included when making the comparison. The Rural Development does not regulate line item closing costs (HUD-1 charges).

MANUFACTURED HOMES

- Existing manufactured homes are not permitted.
- Determine whether the unit is a "manufactured" or a "modular". There are no restrictions on a modular home, even though they are built off-site. Modular homes must meet all the same requirements as "stick built" homes.
- New manufactured homes must be purchased from an Agency approved "dealer-contractor".
 - Only one dealer has made application and it is in a pending stage for approval.
 - Dealers should contact the local RD for the application and requirements for becoming an approved dealer-contractor.
- The set up requirements are different than those of FHA/HUD. The manufactured home must be financed as real estate along with the property and be permanently installed on the site. This entails the removal of all running gear and towing equipment and the installation and anchoring of the home to a permanent foundation system as approved by the State of Florida, the Standard Building Code and Rural Development.
- Site and foundation plans must be submitted for review for each individual application.

MODULAR HOMES

- Modular homes are designed and constructed to meet all requirements of the state adopted building codes, the same as site-built construction (Not the same as manufactured homes, previously known as mobile homes, which meet a national safety and construction standard). Modular homes are processed the same as stick-built homes.
- Rural Development in Florida does not require a complete set of plans and description of materials certified by a qualified plan reviewer.

APPRAISAL

- Lenders may contract with either FHA or conventional state certified appraisers. The lender is responsible for assuring that non-FHA appraisers are knowledgeable of FHA and Rural Development requirements.
- The additional attachments normally required for structures other than detached single family dwellings must be included, as appropriate for the dwelling type (such as condominium). Use of a FHA appraiser is encouraged. A list of FHA appraisers is available at: <https://entp.hud.gov/idapp/html/apprlook.cfm>
- An appraisal is not required when refinancing the principal only of an existing Rural Development guaranteed loan. It is required on all cases of refinancing a Rural Development Direct loan. See the section titled, "Refinancing".
- Commonly used alternate appraisal forms are allowed. See <http://www.rurdev.usda.gov/fl/guarrhs.htm>

SITE AND BUILDING REQUIREMENTS

- Must be residential.

- The site cost generally should not exceed 30% of the total package cost. Consult with Rural Development before proceeding with a higher ratio of site cost.
- Private roads must have a legally enforceable maintenance agreement meeting Fannie Mae, FHA, Freddie Mac or VA requirements. They must be constructed similar to county roads and not appear to be a single lane unimproved extended driveway.
- **NEW HOMES***
 - IN FLORIDA ONLY - New homes* inspected by the county and having a Certificate of Occupancy do not need further inspections other than lender's final inspection.
 - *The Certificate of Occupancy was issued within the past 12 months or new construction is underway or proposed.
 - Drinking water from individual well must meet local or state code.
- **EXISTING HOMES**
 - Policy (FL/VI): The underwriting lender is responsible for determining the dwelling meets requirements of the HUD handbooks 4905.1, Requirements for Existing Housing and handbook 4150.2, Appraisers Handbook, as revised by HUD Mortgagee Letter 2005-ML-48 on this subject dated December 19, 2005, and Rural Development thermal standards.
 - Rural Development (FL/VI) relies on the Lenders Certification that the conditions listed on the Conditional Commitment for Loan Note Guarantee have been met. Lenders are expected to retain and maintain ample evidence of compliance. The lender's signature on the Form 1980-18, "Conditional Commitment for Loan Note Guarantee", lender's certification, will serve as adequate certification of compliance with Rural Development regulations and loan conditions.
 - If a whole-house inspection is completed in lieu of an inspection by a FHA appraiser, it must show compliance with the FHA requirements. A separate septic inspection must be ordered if this option is utilized.
 - Any repairs called for on the inspection(s) can be completed at any time up to the post closing request for the Rural Development Loan Note Guarantee.
 - The Lender, applicant, and seller must work out the plan for completing the repairs. Rural Development will NOT make the repair decisions. Any amount to be paid from loan funds must be included in the loan request prior to underwriting and submission of a file to Rural Development.
 - There is no requirement regarding distance of well to septic. Drinking water from private wells must be tested and meet local or state code.
 - Drinking water supplied from an individual well on the security property must meet local or state requirement for water quality. Lenders retain the water test.
- **Thermal requirements:**
 - EXCEPTION: Dwellings constructed in 1980 or later are exempt from Agency thermal requirements (FL/VI only).

- Underwriters may interpret an appraiser's comment saying the insulation is adequate as meaning the insulation meets state code and therefore meets the below Agency requirements:
 - Agency approved underwriting lenders are responsible for retaining evidence that existing detached or attached single family homes financed with the Guaranteed Rural Housing loan program meet the requirement. The requirement is: R-19 ceiling insulation and R-11 for off-grade floors in and south of the counties of Levy, Marion, and Flagler and R-26 ceiling and R-14 for off-grade floors for counties north of Levy, Marion, and Flagler. Heating and cooling ducts located in a non-insulated crawl space must be insulated. Only the top story of multi-story attached housing units must meet the ceiling insulation requirement.
 - The lender, not Rural Development, will determine whether the dwelling meets these requirements. The appraisal with the adequacy notation or copy of other inspection should be retained by the lender.
 - The appraiser should understand that only the major components of the home should be checked as per the HUD Mortgagee Letter 2005-ML-48, dated December 19, 2005.
 - No inspection is required when refinancing an existing home financed with a RD guaranteed or a RD "direct" loan.
- Check with Rural Development prior to approval of an old dwelling. An existing dwelling must be cost effective to the applicant including reasonable costs of utilities and maintenance for the area. New and existing construction: Private well and septic systems meet county or state requirements.

• FLOOD ZONES

- Existing dwellings located in a special flood hazard area must have federal flood insurance coverage.
- New construction on scattered sites in the 100-yr BFE is not permitted unless a Letter of Map Revision/Amendment is issued by FEMA prior to requesting the guarantee on the loan. Developers of new subdivisions with infrastructure in place, located in a previously mapped 100-yr flood zone, have typically received the FEMA letters.
- Flood insurance is required anytime the foundation of the improvements, existing or new, is located in a special flood hazard area, regardless of whether or not the first floor above the 100 yr. BFE level.
- Consult with the local Rural Development office PRIOR to processing a loan on a property located or proposed to be located in a FEMA designated flood zone. More information about FEMA can be found at: <http://www.fema.gov/mit/tsd>

RURAL DEVELOPMENT PACKAGE TURN AROUND TIME

It mostly depends on the quality of the packages. Rural Development does not underwrite the loans. The Agency personnel must check for certain eligibility criteria, do an environmental review, and review the appraisal. Depending on the availability of staff and the quality of the loan package, most lenders receive next day service.

GETTING STARTED

- Educate your loan officers, processors, underwriters, and closing department. The Florida/VI RD has 15 local offices located throughout Florida and in St. Croix (serving all of Virgin Islands). Request training from your nearest Rural Development office.
- Thoroughly review this material, the RD-Instruction 1980-D, and the Administrative Notices posted on web.
- This handbook and the referenced ANs are available for view and downloading at our Florida homepage: <http://www.rurdev.usda.gov/fl/guarrhs.htm>
- Review the processing checklist located at the front of the forms set (at the end of this handbook).
 - NOTE: The Form 1980-21, "Request For Single Family Housing Loan Guarantee" must show the underwriting lender information, be signed by the underwriting lender and applicant(s), and a copy must be delivered to Rural Development.
- Review the "Processing Guide" furnished in this material.
- Ask your local Rural Development Manager for the names of other lenders experienced in this loan program. Call them for some insight.

RESERVATION OF FUNDS

Originating lender/broker branch must request the reservation of the funds when it appears the loan will likely clear the underwriting process. This assures all parties that the Rural Development funding is available. It should be done before the loan is underwritten. Fax the RD Form 1980-86, "Reservation of Funds" to the Rural Development office serving the county where the property is located. The form is found in this handbook or at on the web site: <http://www.rurdev.usda.gov/regs>

LOAN CLOSING CAUTION:

- Do **NOT** close the loan until both the lender underwriter AND Rural Development conditions are met.
- Make certain that the loan amount matches the amount shown on the Rural Development Conditional Commitment for Guarantee.
- Make sure the guarantee fee is 2.0% (or 0.5% for refinancing) of the FINAL loan amount.
- Make sure the borrower(s) still have repayment ability for the loan. If the income has decreased, the underwriter must re-compute the underwriter's analysis or 1008 and Rural Development must concur in allowing the loan to close.

ACCURACY OF THE LOAN REQUEST

- Break out the loan purposes on the RD Form 1980-21, "Request for Single Family Housing Loan Guarantee." This will help remind you of any closing costs, such as the guarantee fee, that you intended to include in the loan.
- Check your loan submission package for the correct FINAL loan amount. It is very difficult and in some cases impossible for Rural Development to change the loan amounts after the Rural Development Commitment has been issued. Changing the Rural Development Commitment would entail canceling the first package and essentially starting from scratch. The Lender would have to supply revised or updated forms such as the Request for Guarantee (Form RD 1980-21), the Forms 1003, 1008 and certify the applicant is still income eligible.

- Review the appraisal prior to completing the initial loan package to Rural Development. The loan can be an amount up to the appraised value PLUS the amount of the guarantee fee if it is financed. This is another reason to have the appraisal very early in the loan process.

REQUESTING CHANGES IN THE RURAL DEVELOPMENT COMMITMENT AMOUNT AFTER THE LOAN IS CLOSED

It is IMPERATIVE that your closing department makes sure that the loan amount does not exceed the amount shown on the RD Conditional Commitment for Guarantee. The Rural Development may not be able to adjust the amount of Commitment. The Lender likely will need to adjust the principal on the loan in order to obtain the Guarantee from Rural Development.

REPLACEMENT FORMS

The form RD 1980-21, "Request For Single Family Housing Guarantee", and the extra forms required for a construction-permanent loan which are Form 400-1 and 400-6 are available at:

<http://forms.sc.egov.usda.gov/eforms/mainervlet>

and: <http://firstgov.gov> Forms and regulations are also available on the www.AllRegs.com site.

THE GUARANTEE

- Lender retains ownership of REO and is responsible for marketing the property. See our Servicing Guide on the FL/VI web site.
- Loss is calculated by:
 - Step 1: adding all unpaid accrued interest, principal, foreclosure costs, all REO costs, interest from foreclosure date to REO sale (maximum of 6 months), and all REO sales expense to determine gross investment. Subtract gross REO sale price from gross investment to determine the loss.
 - Step 2: Multiply the original loan by 35 percent.
 - Step 3: RD pays THE LESSOR OF all of the loss determined in Step 1 or 35% of the original loan (Step 2)
 - Step 4: RD pays 85% of any loss remaining unpaid from Step 3.
- Maximum paid is 90% of the principal borrowed.

SERVICING THE LOAN: See www.rurdev.usda.gov/fl/quarrhs.htm or contact the FL/VI headquarters: 352-338-3435.

REGULATIONS ON THE WEB

This Handbook, forms set, servicing guide, and national Administrative Notices (ANs), are posted on the Florida home page at:

<http://www.rurdev.usda.gov/fl/quarrhs.htm>

The national regulation for the guaranteed housing program is RD Instruction 1980-D. The 1980-D is particularly useful for answering questions regarding income and the adjustments to income. Other regulations that cover parts of the program are RD-Instruction 1924-A (construction issues), RD-1940-G (environmental), RD Instruction 426-2 (flood insurance, construction in flood zones).

National regulations can be downloaded from the Web site:

www.rurdev.usda.gov/regs

They are posted to the "Allregs" site and
<http://forms.sc.egov.usda.gov/eforms/formsearchervlet>

HOME PAGES

Each state home page can be accessed by using the national home page, and then add a slash (/) and the two letter abbreviation of the state. For example, the Florida RD home page is: www.rurdev.usda.gov/fl
Remember, to directly access the FL Guaranteed Housing Loan information, go to: <http://www.rurdev.usda.gov/fl/guarrhs.htm>

The Rural Development National home page is located at:

<http://www.rurdev.usda.gov>

Look for the housing programs. There is a map where you can click on a State to find more information about that states' programs. It is very useful for finding the contacts in other states.

OTHER USEFUL SITES

Fannie Mae: www.fanniemae.com/

Freddie Mac: www.freddiemac.com/

FHA/HUD: www.hud.gov/

VA: <http://www.va.gov/>

County SHIPP Coordinators: <http://www.floridahousing.org/dpts/sfp.html>

FHA Appraisers: <https://entp.hud.gov/idapp/html/apprlook.cfm>

Federal Register: http://www.access.gpo.gov/su_docs/aces/aces140.html

FINDING THE APPROPRIATE RURAL DEVELOPMENT OFFICE

- An office directory and other associated information is available on our FL web site: <http://www.rurdev.usda.gov/fl>

THINK ABOUT IT

- Most applicants will be lower income, without cash reserves, no previous home ownership experience, marginal work history, marginal credit, high ratios, and suffering major housing payment shock. Do not put them in an old, high maintenance home where they will likely experience major expenses early in the loan.
- Rural Development local staff is available to answer your questions and provide training for your staff. Do not ask them to review or underwrite the loan before it is shipped to the underwriter.

PROCESSING GUIDE

Step 1: Fax the Reservation of Funds to the local RD office. See "Reserving Funds". NOTE: The Reservation system may not be available.

Step 2: RD will return the confirmation of the reserved amount. The funds are set aside for 60 days while you process the loan through underwriting and then to RD. The loans do NOT have to close in the 60 days. The application package must be delivered in 60 days. Then RD will issue the Commitment with conditions which gives you additional time as needed.

Step 3: Compile two origination packages, one for the underwriter and one for RD (using the processing checklist).

Step 4: Send BOTH packages to your underwriter. If they approve the loan, they will update the RD package and forward it to RD for the final review and Commitment.

Step 5: RD will review the package and issue a Conditional Commitment for Guarantee, with any conditions, directly back to the underwriter. Typically a copy is faxed to the originator.

Step 6: The underwriting lender will inform the originating office and closing department of the loan conditions set by both the underwriter and RD.

Step 7: The closing lender proceeds to close the loan if all underwriter and RD conditions have been met.

Step 8: The underwriting/closing lender submits a closing package for the guarantee. The RD approval (Conditional Commitment) conditions provide a list of items necessary to obtain the guarantee.

Step 9. The RD issues the Loan Note Guarantee to the closing department of the RD approved lender. The guarantee must be attached to the original promissory note as proof of guarantee.

NOTE: If the loan is sold, the original, signed, Loan Note Guarantee is to be sent to the acquiring Note holder. If your company retains the servicing, make sure the Loan Note Guarantee is shipped for storage in the servicing file.

RURAL DEVELOPMENT
UNITED STATES DEPARTMENT OF AGRICULTURE
ORIGINATION PACKAGE CHECKLIST

Date:

Applicant name(s):

Lender loan number:

HIGH QUALITY COPIES are acceptable for the following items:

Form RD 1980-21, "Request For Single Family Housing Loan Guarantee"

form revision date 6/06 (see upper left corner)

Itemize the loan purposes. Break out the guarantee fee if it is financed into the loan.

Income verification*

Credit history verification*

Purchase agreement*

Appraisal with photos. Provide conventional or FHA appraisal on new or proposed construction. For existing properties, Rural Development encourages the URAR by a FHA appraiser.

Uniform Residential Loan Application*

Must be fully completed and signed by the applicant(s). The CAIVRS number for each applicant must be listed above the signature line.

Lender's Loan Underwriting Analysis*

Uniform Underwriting Analysis and Transmittal Summary or similar form signed by the underwriter.

Comments and requirements of underwriter must be attached.

Compensating factors are attached, if required by Rural Development regulations or Administrative Notices.

FEMA Form 81-93, "Standard Flood Hazard Determination"

NA if refinancing a RD direct or guaranteed debt.

***Rural Development, Fannie Mae, Freddie Mac, VA, and FHA-HUD forms and documentation are acceptable.**

You may replicate Rural Development forms for your supply.

Rural Development forms, Administrative Notices, and regulation 1980-D are available at: www.rurdev.usda.gov/regs

Other sites for forms and information are: <http://forms.sc.egov.usda.gov/eforms/mainervlet>

and: <http://firstgov.gov> Forms and regulations are available on the www.AllRegs.com site.

For the directory of personnel and Agency program information, access the home page for the state's Rural Housing Service, a.k.a., Rural Development, by adding a forward slash and the two letter state abbreviation to the national Rural Development web site:

<http://www.rurdev.usda.gov> For example, to access Florida's home page: <http://www.rurdev.usda.gov/fl>

The forms set can be e-mailed to your local Rural Development office by the underwriting lender.

This is not an official form of the United States Department of Agriculture. It was developed as a tool for voluntary use by lenders in developing uniform loan packages for submission to Rural Development under the Guaranteed Housing Loan Program.

Frequently Asked Questions for Lenders

- Q. What is the maximum loan amount?
- A. None. However, it is limited by the appraised value and repayment ability.
- Q. What is the maximum LTV?
- A. It can be up to 100% LTV plus the Agency guarantee fee.
- Q. Are alternate documents allowed for verifying income?
- A. Yes, refer to the Administrative Notice on this topic.
- Q. How much time should we allow for the Rural Development review process?
- A. Upon receipt of a complete loan package, allow 24 to 48 hours for the Rural Development review.
- Q. Do we need explanations for adverse credit?
- A. If the primary applicant's middle score is 660 or higher, explanations are not necessary.
- Q. What if the applicant has no credit score?
- A. Alternate documentation of credit history is acceptable.
- Q. Is there a minimum credit score required?
- A. No. However, underwriting lenders are responsible for determining the creditworthiness in accordance with Agency guidelines.
- Q. Can closing costs be financed into the loan?
- A. Yes, any difference between the contract price and the appraisal value can be used to finance normal closing costs.
- Q. Can we use affordable housing products?
- A. Yes. State and/or Community Housing Finance Agencies; Federal Home Loan Bank; HOME; non-profit organization (may be acceptable).
- Q. Can any lender originate Rural Development loans?
- A. Yes, only Agency approved lenders may submit the loans.
- Q. Can we finance new homes with this product?
- A. Both end loan and construction-permanent loans are permitted.
- Q. Can I offer customers a interest rate buy-down?
- A. Permanent buy-down or a temporary 2/1 buy-down is permitted.

Frequently Asked Questions (Real Estate Professionals)

- Q. Is the loan amount limited to the purchase price?
A. No. It is limited to the appraised value. In addition, the one-time guarantee fee can be included in the loan above the appraised value.
- Q. Can closing costs be financed in the loan?
A. Yes, if the appraised value exceeds the contract amount.
- Q. Can repairs be included in the loan?
A. Yes. The appraiser can do an 'as improved' appraisal to include the cost of repairs.
- Q. What are the required inspections?
A. The property must meet FHA requirements or similar standards and Rural Development thermal standards.
- Q. Is mortgage insurance required?
A. No. The Agency charges a one-time guarantee fee that can be financed.
- Q. How much time should we allow for closing the transaction?
A. Upon receipt of a complete loan package from an approved lender, our review process takes 24 to 48 hours. The loans close within the typical time frame allowed for conventional financing.
- Q. Is there a minimum credit score?
A. No. However, the approved lender will expect an adequate credit history to demonstrate the customer is creditworthy.
- Q. Can a duplex unit be financed?
A. No. Rural Development regulations prohibit income producing properties.
- Q. Can a hobby farm be financed?
A. No. The property must be considered a rural residence that does not produce income or have excessive acreage.
- Q. I work with a local mortgage broker. Can they process the loan?
A. Yes. However, only the Agency approved underwriting lender can submit the application to Rural Development.
- Q. Are seller concessions allowed?
A. Yes. The Rural Development does not restrict the amount of seller concessions.

Frequently Asked Questions (builders)

- Q. What is the maximum loan amount or purchase price limit?
A. None. However, it is limited by the appraised value and repayment ability.
- Q. Can my customers obtain Rural Development financing on spec homes?
A. Yes. Check with your local or state Rural Development staff for documentation requirements.
- Q. Is mortgage insurance required?
A. No. The Agency charges a one-time guarantee fee that can be financed.
- Q. How much time should we allow for closing the transaction?
A. Upon receipt of a complete loan package from an approved lender, our review process takes 24 to 48 hours. The loans close within the typical time frame allowed for conventional financing.
- Q. Is there a minimum credit score?
A. No. However, the approved lender will expect an adequate credit history to demonstrate the customer is creditworthy.
- Q. What are the allowed loan purposes?
A. The loan may include all typical costs associated with the land purchase, construction, and closing the loan.
- Q. What are the options for financing a custom home?
A. Lenders can process either a construction-perm loan or an end loan.
- Q. Can closing costs be financed in the loan?
A. Yes, if the appraised value exceeds the contract amount.
- Q. I work with a local mortgage broker. Can they process the loan?
A. Yes. However, only the Agency approved underwriting lender can submit the application to Rural Development.
- Q. Are seller concessions allowed?
A. Yes. The Rural Development does not restrict the amount of seller concessions.
- Q. What types of new homes can be financed?
A. All typical types for the area including stick-built, modular, manufactured, condominiums, and town-homes.